

HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

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January 10, 2003

Democratic Stimulus Is Effective, Fair, and Fiscally Responsible; Bush Tax Package Isn't

House Democrats and the President have each presented plans to address the current weakness in the economy. Any legitimate stimulus package should be (1) effective, (2) fair, and (3) fiscally sound—and the Democratic proposal meets all of these tests. The Bush “stimulus” proposal fails on all three counts. Unfortunately, his proposal largely focuses on costly long-term tax breaks for the most fortunate, rather than the short-term economic boost that the economy needs. ***The Democratic plan will create approximately five times as many jobs in 2003 as the President’s plan, while costing less than one-sixth as much over the long term.***

Effectiveness

Only the Democratic plan provides an effective economic stimulus. The Democratic plan is immediate, substantial, and uses a proven approach to creating jobs and growing the economy. Our plan packs all of its resources up front, with a 2003 stimulus of \$136 billion that is more than double the first-year stimulus in the President’s plan. The Democratic plan also provides economic stimulus directly, by putting money in the pockets of families most likely to spend and providing tax relief to businesses most likely to invest and hire. ***The Democratic plan will create more than a million jobs in 2003, whereas the President’s own economists estimate that his latest proposal will generate only 190,000 jobs in 2003.***

The President admits that his plan has an impact of only \$59 billion in 2003, only 43 percent of the stimulus that the Democrats’ plan has. A mere 9 percent of the Bush package’s total impact occurs this year, when the economy needs a jump-start.

The Bush plan is a “Trojan horse” intended to facilitate more tax breaks for the affluent, rather than to stimulate the economy. The Administration shies away from even using the term “stimulus” because it contradicts the President’s claim that economy is “pretty darn good,” just not good enough. (Of course, the President’s budget already relies on rosy economic projections

to make it appear that his policies will eventually return the budget to balance.) If this truly is a long-term growth plan, the President should have released it in February as part of his overall budget, so that one could evaluate how the plan's growing deficits and debt would undercut the economy going forward.

Democrats' plan uses ready-to-go policies to stimulate the economy that reflect the broad professional consensus among economists about what works. By contrast, the Bush proposal is a radical and untested experiment. For instance, no credible professional economist believes that eliminating taxation of dividends provides any significant short-term stimulus.

The Bush plan relies largely on untested and indirect measures, rather than directly putting resources in the pockets of those who will immediately spend and invest. The Bush proposal not to tax dividend income bets on a shaky chain of events. It assumes (1) that changes in households' dividends will encourage more people to invest in the stock market, which will (2) boost the stock market, which will (3) increase the value of portfolios, which might (4) prompt increased spending and investment. Furthermore, the President's "innovative" proposals — like the dividend exemption and the re-employment accounts — are untested and too complex for enactment on an emergency basis. By contrast, Democrats' plan would put money directly into the pockets of small businesses and hard-pressed working families — including those who did not benefit from last year's tax cut.

The centerpiece of the Bush "stimulus" plan — changing the treatment of dividend income — could actually hurt the economy. Reducing taxes on dividend income could create an incentive for firms to boost dividend payments at the expense of new investment. Furthermore, any increased attractiveness of equities would come only at the expense of reduced investment financing by other means like bonds, significantly offsetting any boost to new investment from higher equity prices.

The Bush proposal not only fails to help state governments, but actually makes their fiscal problems worse. Virtually all states are facing severe budget problems, and the tax increases and program cuts they are contemplating — while necessary for them — will hurt the economy. The Democratic stimulus plan provides \$32 billion to the states to help underwrite their homeland security expenses and to forestall tax increases and harmful budget cuts. The Bush proposal provides no resources to hard-pressed states. Worse still, the Administration's tax cuts will make budget problems worse for the majority of states that piggy-back their tax systems on the Federal government's. This will cost the states more than \$4 billion per year over the next decade.

Fairness

Only the Democratic plan is fair. The Democratic plan focuses on the backbone of the American economy: the working families and small businesses. Under the Democrats' plan, everyone who works gets a tax cut and essentially everyone receives the same \$600 per couple. By contrast, the Bush proposal is unfair. The centerpiece of the Bush "stimulus" — his proposal to eliminate taxes on dividend income — would provide the bottom 82 percent of taxpayers with

an average tax cut of only \$31, while awarding the top 0.2 percent a \$27,097 tax break. Instead of addressing the economy's weakness right now, the President instead proposes a package of tax breaks that primarily benefit the few and that will burden working families and their children with more public debt and higher interest rates.

The Administration uses highly selective examples to claim that its proposal grants most Americans a substantial tax break. The President's proposal would give half of all taxpayers a tax cut of less than \$100 a year. But he routinely cites the tax break that a family of four with two parents and two children might receive. Such families benefit significantly from any expansion of the child credit, but they get very little from the elimination of dividend taxation that accounts for about half of the Bush proposal. Two-parent, two-child families represent only 15 percent of all households.

The centerpiece of the Bush proposal — the elimination of taxes on individual dividend income — is the Republicans' most unfair tax break yet. IRS data show that the overwhelming majority of families' taxable dividend income is a trivial part of their total income. For instance, those with incomes between \$40,000 and \$50,000 typically have only \$604 in taxable dividends, while those over \$10 million have \$862,542 in dividends. Not surprisingly, therefore, the Bush proposal gives 82 percent of taxpayers (with incomes below \$75,000) an average tax cut of \$31 while awarding the top 0.2 percent (those with incomes over \$1 million) a tax break of \$27,097.

The Bush proposal to accelerate future rate cuts for upper-income taxpayers also goes overwhelmingly to the top. Moving forward the effective dates for the 2001 Republican tax cut will essentially benefit only those with incomes greater than \$75,000. Most taxpayers already have seen virtually all they are ever going to get from the Republican tax agenda.

Republicans complain unfairly about "class warfare" while pursuing policies that will hurt middle-class Americans. The few and inadequate provisions of the Bush plan that do address the needs of hard-pressed working families are merely a "Trojan horse" to facilitate Republicans' pre-existing tax cut agenda. They were included solely to counter Democrats' proposals — just as the Administration was forced belatedly to include a rebate for working families in the 2001 tax bill after Democrats had suggested it. Meanwhile, the Administration's dedication to large tax cuts has created chronic deficits that will deny resources for programs on which middle-class Americans rely.

Fiscal Soundness

Only the Democratic proposal is fiscally responsible. The Democratic proposal combines short-term stimulus with long-term balance, allowing the budget to recover as the economy strengthens. In fact, the impact of our package on the budget declines from \$136 billion in 2003 to \$100 billion for the entire 2003-2013 period.

Republicans propose a package that offers little boost to the economy in 2003 because over 90 percent of its cost occurs in future years. Even taking their numbers at face value, Republicans propose increasing the long-term budget deficit by close to \$1 trillion, including added interest

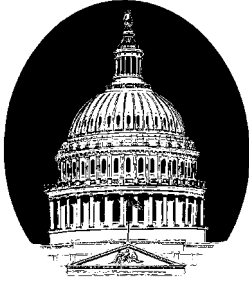
on the public debt. In practice, the impact of their package on the deficit could be far worse, and the depressing effects of these swelling deficits could easily outweigh any economic boost the package might provide.

If the Republican tax agenda becomes law, Americans will face growing budget deficits for as far as the eye can see. Passage of the Bush “stimulus” proposal and making permanent all of the provisions of the 2001 Republican tax cut — as the Administration and the Congressional Republican leadership have repeatedly advocated — will cause this year’s estimated \$250 billion deficit to grow over the next decade.

Republican claims that their unfair tax breaks will not hurt the budget because they will prompt faster economic growth are simply not plausible. The Administration’s budget projections from last year already assumed robust growth of 3.7 percent both this year and next year. Claiming now that the economy will do even better than Republicans’ previous rosy forecast is as credible as Republicans’ supply-side claims 20 years ago.

Having suffered the greatest fiscal reversal in American history, the Bush Administration proposes more of the same. The breathtaking long-term cost of the Bush “stimulus” proposal comes on top of a \$5 trillion deterioration of the ten-year budget since the President took office. At first, Republicans claimed that surpluses were so large that permanent, growing tax cuts were needed to avoid the danger of paying off too much debt. Then, Republicans claimed that their first huge tax cut still was not enough, and accused Democrats of “deficit-mongering.” Now, in the guise of providing needed short-term stimulus, Republicans propose more of the same, resulting in even greater long-term costs. At some point, reality will force Republicans to admit that permanent, long-term, tax breaks for the affluent make long-term deficits worse not better.

In five short years, the Baby Boom generation will begin to retire, and the Bush economic agenda promises to add a huge and growing public debt to the burdens that future workers will bear. Only 16 months ago, the Republicans agreed with Democrats that preserving surpluses at least as large as the Social Security surplus was a “threshold condition of public finance.” Now, the President is proposing deficits that spend the entire Social Security and Medicare surpluses, and then some, forever. Of course, Republicans already have a new refrain — a complete reversal from just two years ago — that deficits do not matter.



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Only the Democratic Stimulus Proposal Is Effective, Fair, and Fiscally Responsible

revised January 10, 2003

Over the last two days, House Democrats and the President have each presented plans to address the current weakness in the economy. A legitimate stimulus package should be (1) effective, (2) fair, and (3) fiscally sound—and the Democratic proposal meets all of these tests. By contrast, the Bush “stimulus” proposal fails on all three counts. Unfortunately, his proposal focuses on costly long-term benefits for the few, rather than the short-term economic boost that the economy needs. *The Democratic plan will create approximately five times as many jobs in 2003 as the President’s plan, while costing less than one-sixth as much over the long term.*

- ***Only the Democratic plan provides an effective economic stimulus.*** The Democratic plan is immediate, substantial, and uses a proven approach to creating jobs and growing the economy. Our plan packs all of its resources up front, with a 2003 stimulus of \$136 billion that is more than twice as large as in the President’s plan. Additionally, the Democratic plan provides economic stimulus directly, by putting money in the pockets of families most likely to spend and providing tax relief to businesses most likely to invest and hire. The Democratic plan will create more than a million jobs in 2003.

By contrast, the President’s plan has an impact of less than \$102 billion in 2003, meaning that less than 10 percent of the total cost of the package occurs this year, when the economy needs a jump-start. Additionally, the Bush proposal relies on indirect effects, like trying to stimulate the stock market, in the hope it will eventually boost the rest of the economy. *According to the Administration’s own figures, its package will create only 190,000 jobs in 2003, only about one-fifth as many jobs as the Democratic package.*

- ***Only the Democratic plan is fair.*** The Democratic plan focuses on the working families and small businesses that form the backbone of the American economy. Under the Democrats’ plan, everyone who works gets a tax cut and everyone receives the same \$600 per couple. By contrast, the Bush proposal is unfair. For instance, the centerpiece of the Bush “stimulus” — his proposal to eliminate taxes on dividend income — would provide the bottom 82 percent of taxpayers with an average tax cut of only \$31, while awarding the top 0.2 percent a \$27,097 tax break. Instead of addressing the real weakness that currently exists in the economy, the President instead proposes a package of tax breaks that primarily benefits the few.

- ***Only the Democratic proposal is fiscally responsible.*** The Democratic proposal combines short-term stimulus with long-term balance, allowing the budget to recover as the economy strengthens. In fact, the impact of our package on the budget declines from \$136 billion in 2003 to \$100 billion over ten years. By contrast, the Republicans propose a package that is smaller in 2003, with more than 90 percent of the cost occurring in future years. Republicans propose increasing the long-term budget deficit by more than \$600 billion, even taking their own numbers at face value. In practice, the impact of their package on the deficit is likely to be far worse.

Economic Stimulus: Democrats vs. Bush Plan

House Budget Committee
Democratic Staff

Revised January 10, 2003

Bush Stimulus Package



Fair?

NO



Fast-Acting?

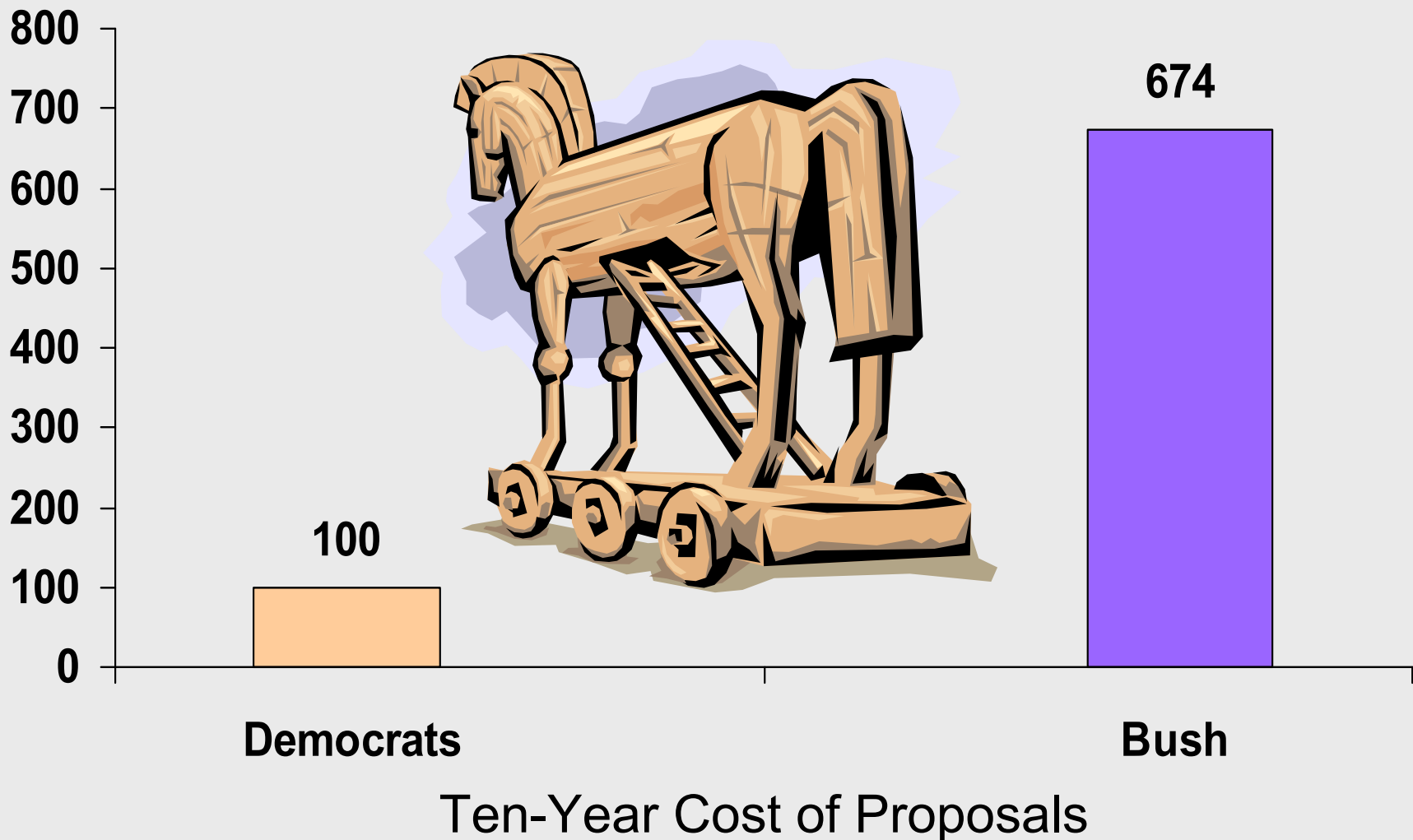
NO



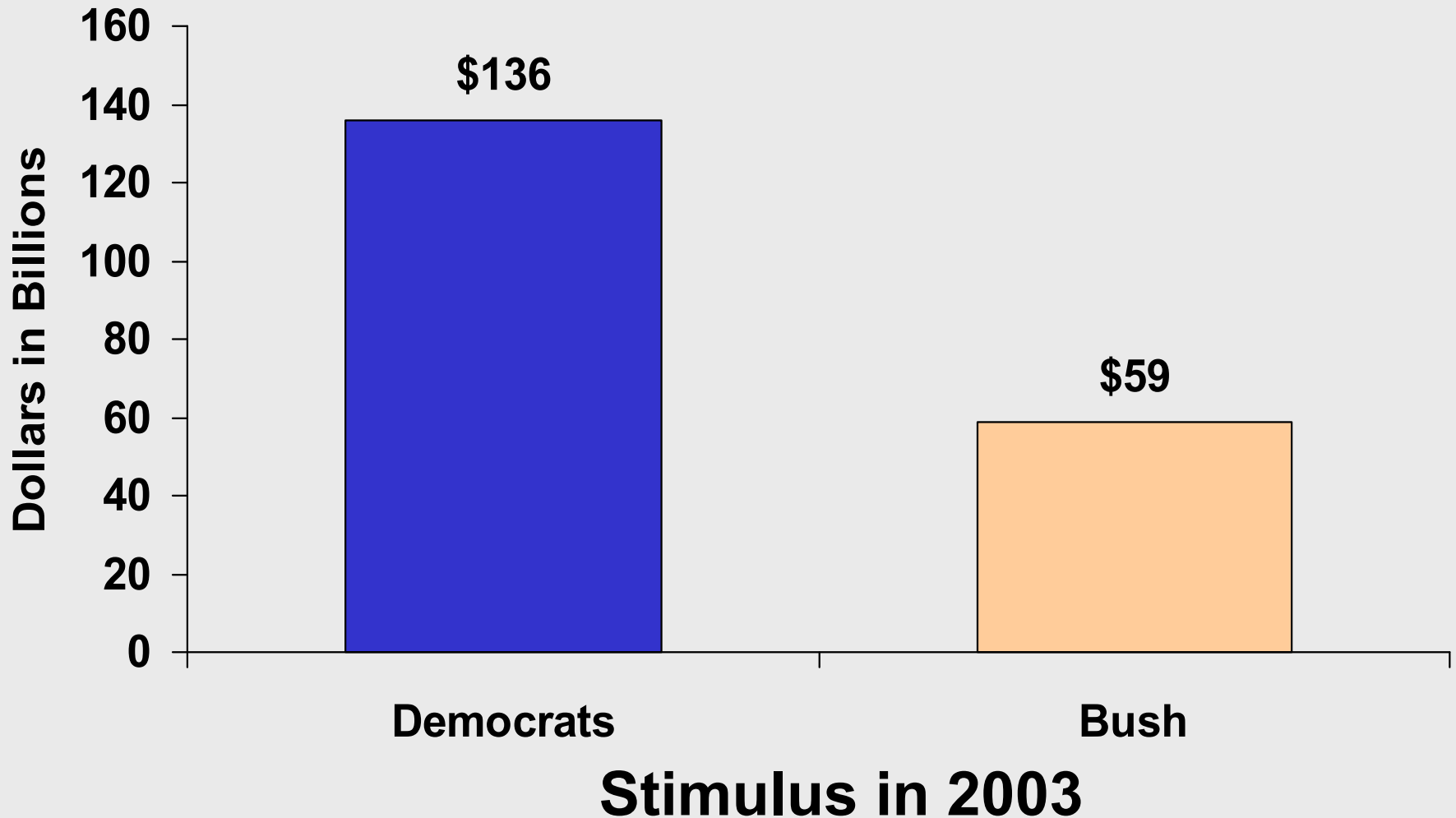
Fiscally Responsible?

NO

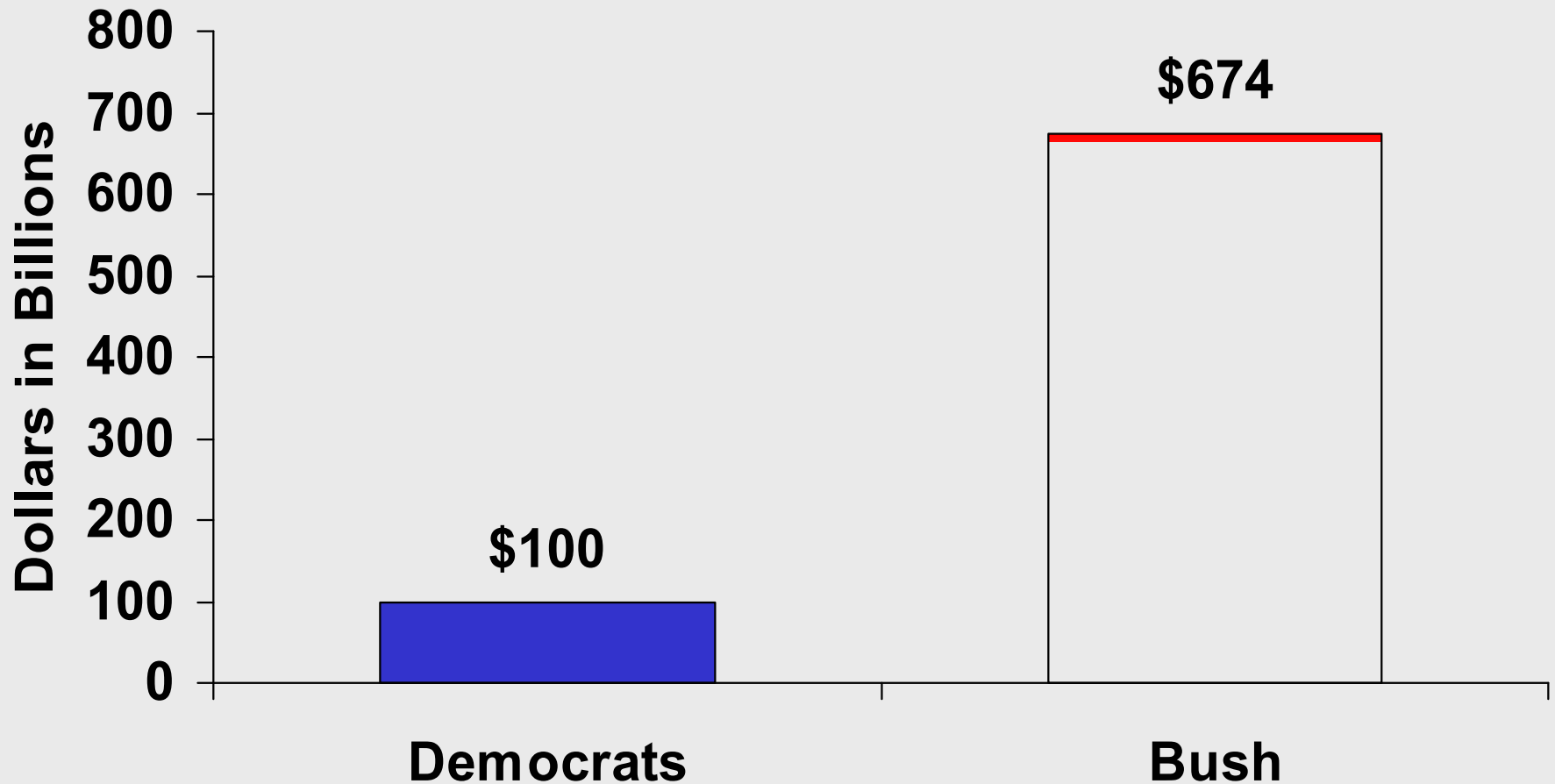
Trojan Horse: Republicans Pursue Tax-Cut Agenda Under Guise of Stimulus



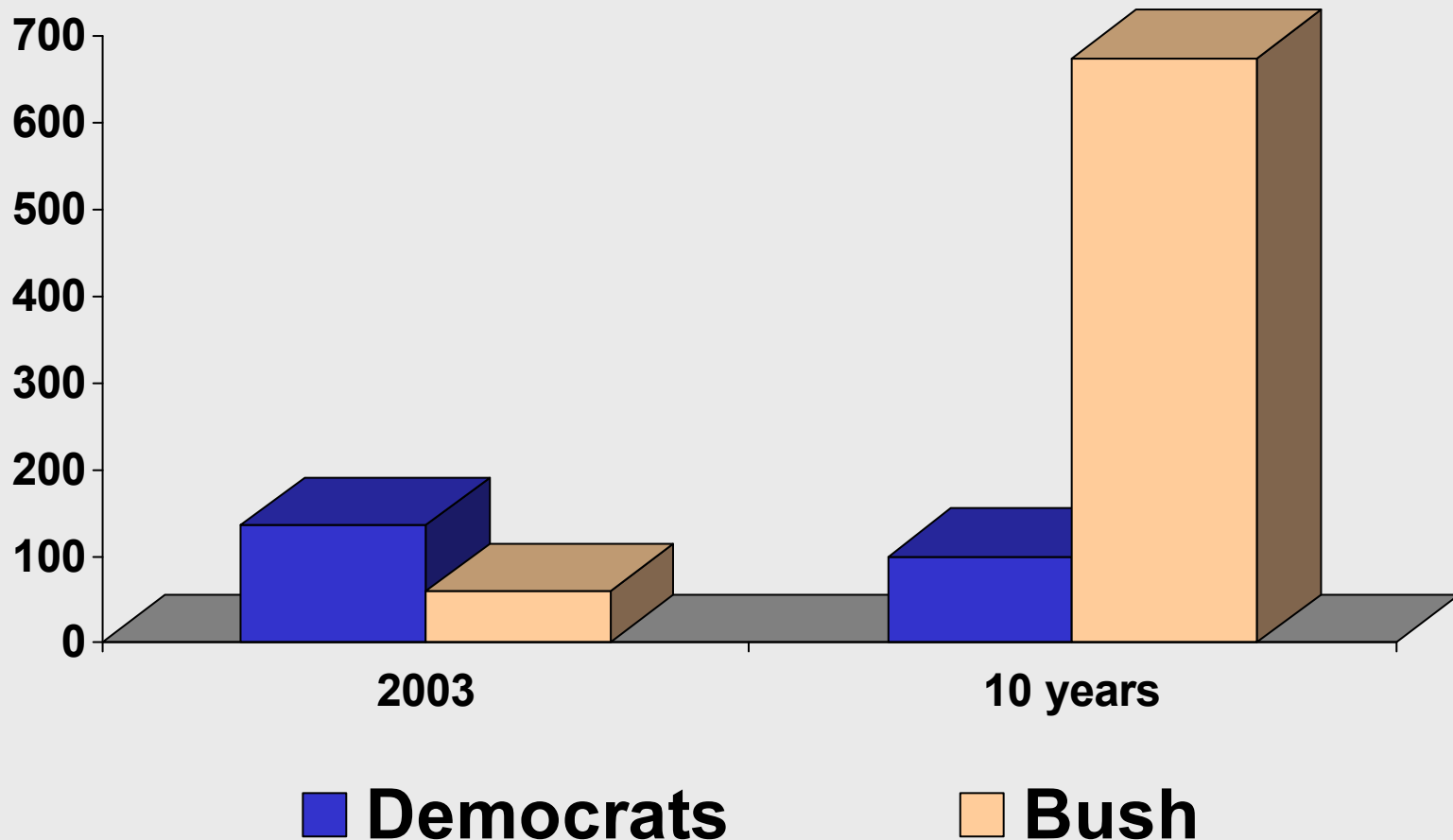
Democratic Stimulus: More Than Two Times Larger



Republican Plan Busts Budget Cost Over Ten Years



Democrats: Short-Term Stimulus, Long-Term Balance



Who Benefits from Dividend Taxation Proposal?

Income

Average Benefit

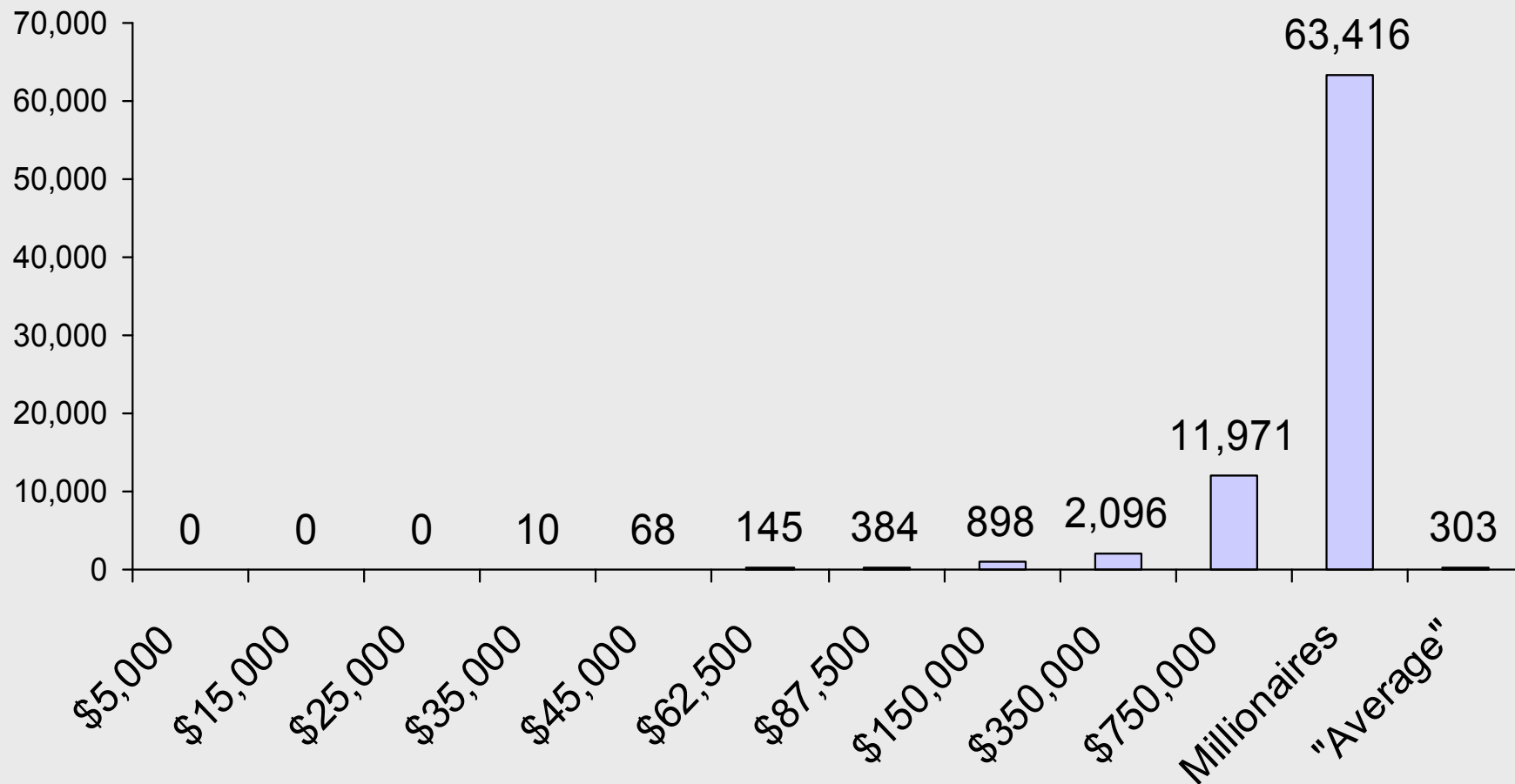
Less than \$75,000

\$31

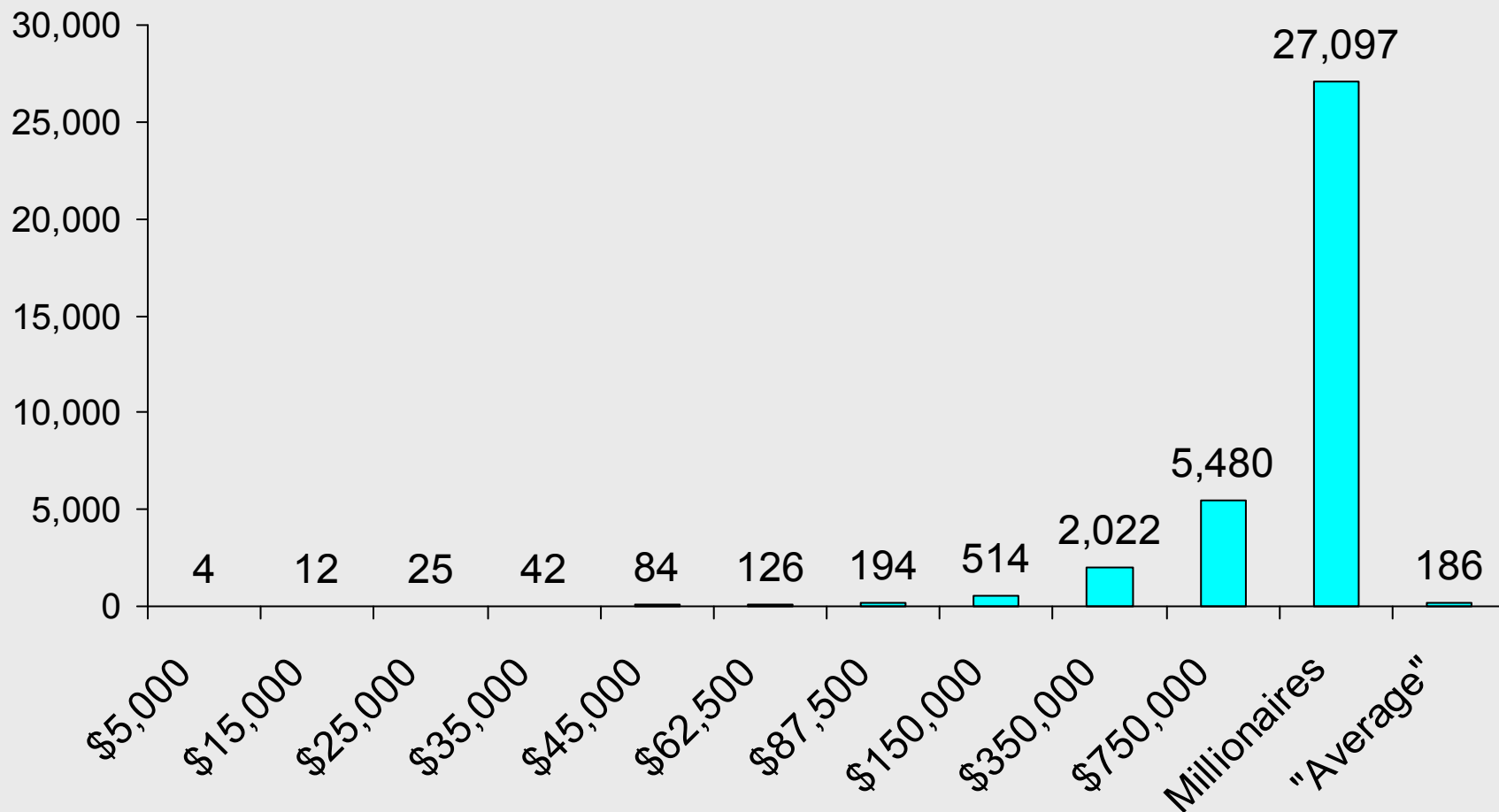
More than \$1 million

\$27,097

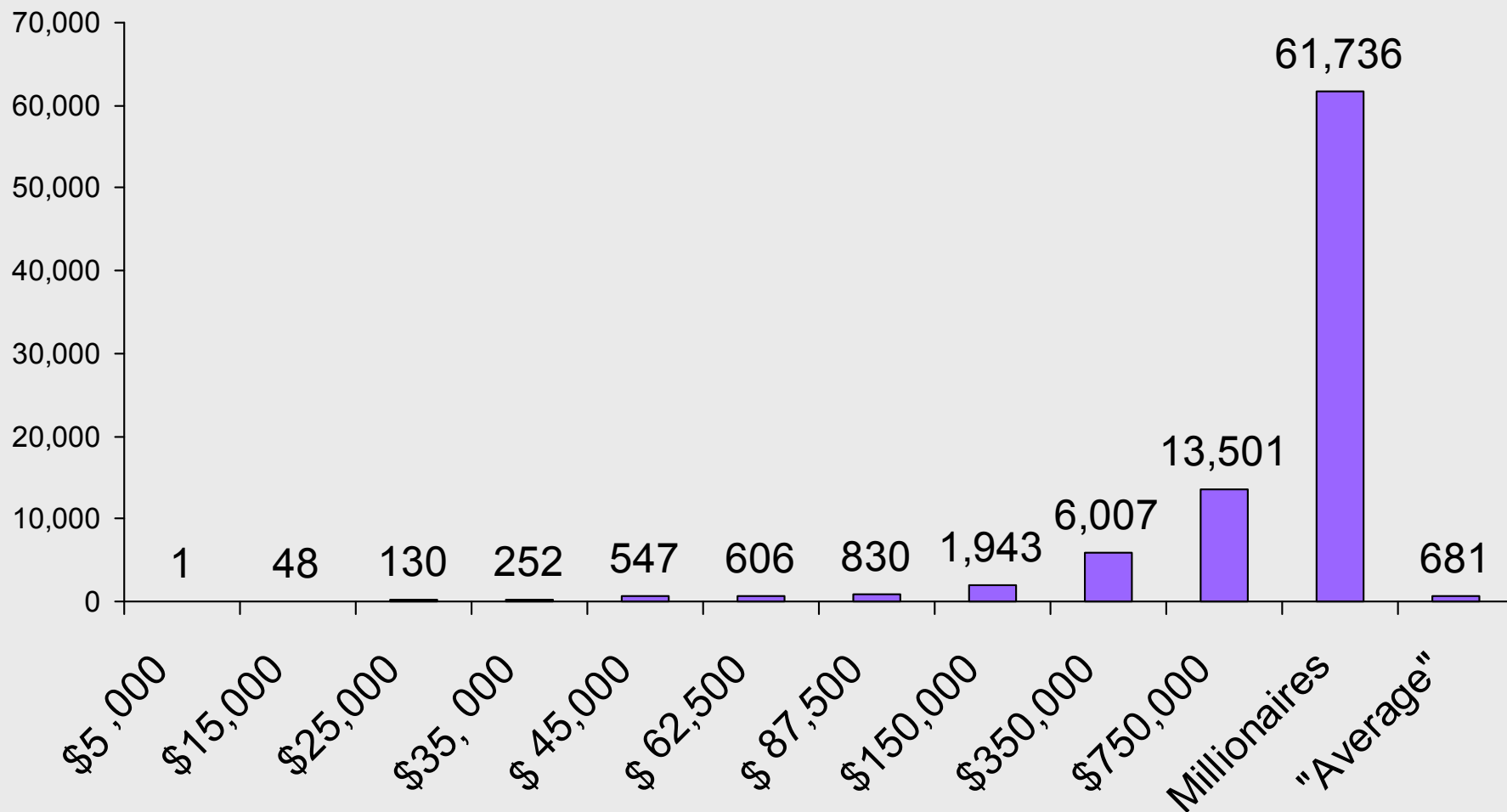
Tax Benefit From Accelerating Rate Cuts, 2003



Tax Benefit From Exempting Dividends, 2003



Tax Benefit From Exempting Dividends – Elderly Only - 2003



Help for the Unemployed

	Democratic Stimulus	Republican S. 23
Help 1 million jobless who received 13 weeks of federal aid	YES	NO
Help part-time/low-wage workers	YES	NO
Weeks of benefits	26	13
Average total benefit	\$6,708	\$3,354
Federal aid in 2003	\$18 billion	\$7 billion
Deadline for applying	June 30	May 31

Democrats Provide Real Assistance to States

President Ignores State Fiscal Crises

	Democrats	Bush
Total	\$32 B	\$4 B
Medicaid	\$10 B	\$0
Homeland Security	\$10 B	\$0
Infrastructure	\$5 B	\$0
Other	\$7 B	\$4 B
Tax Cuts Harm States?	No	Yes

2001 Tax Cut All Over Again

New Bush Agenda Costs Another \$2 Trillion

Stated Bush Program	674
• Debt Service (Estimated)	<u>280</u>
Subtotal	954
• Make 2001 Tax Cuts Permanent	600
• Debt Service (Estimated)	<u>45</u>
Subtotal	1,599
• AMT Repair (Estimated)	500
• Debt Service (Estimated)	<u>75</u>
Total Tax Agenda	2,174

Democrats' Tax Rebate vs. Bush Tax Cuts

	Democrats' Stimulus Tax Rebate	Bush Tax Cut
What couples up to \$75,000 get	\$600	\$273
What couples over \$1 million get	\$600	\$88,873
Proportion of tax cut going to couples up to \$75,000	75%	26%
Proportion of tax cut going to couples over \$1 million	0.2%	17%
Makes states' fiscal problems worse	No	Yes

Side-by-Side Comparison of Stimulus Plans

	Democratic Plan	Republican Plan
2003 Impact	\$136 billion	\$59 billion
10-Year Cost to Budget	\$100 billion	\$674 billion
Unemployment Provisions	<p>— Pass Rangel bill which provides 26 weeks of benefits (13 extra weeks for the 1 million jobless who have received 13 weeks of federal aid) for those applying by June 30</p> <p>— Provide temporary aid to states to cover low-wage earners and part-time workers (\$18 billion in FY03 and \$10 billion over 2003-13)</p>	<p>— \$3.6 billion for states for “re-employment accounts” that reportedly would provide up to \$3000 to at least 1.2 million unemployed</p> <p>— The Bush plan does not extend the federal Temporary Extended Unemployment Compensation (TEUC) program. This week, the Republican Congress passed S. 23, which provides only 13 weeks of benefits for those applying by the end of May (\$7 billion in FY03)</p>
Tax Provisions for Individuals	Refundable tax rebate of \$300 per person and \$600 per couple (\$55 billion in 2003 and \$58 billion in 2003-13)	<p>— Elimination of taxation of dividend income (\$20 billion in CY03; \$364 billion over 10 years);</p> <p>— Acceleration of rate cuts scheduled to take effect in 2004 and 2006 (\$29 billion in CY03, \$64 billion over 10 years);</p> <p>— Acceleration from 2010 of child credit from \$600 to \$1000 (\$16 billion in CY03, \$91 billion over 10 years);</p> <p>— Accelerate reduction of marriage penalty (\$19 billion in CY03, \$58 billion over 10 years);</p> <p>— Accelerate expansion of 10 percent bracket (\$5 billion in CY03, \$48 billion over ten years);</p> <p>— Individual hold harmless on AMT for the above changes through 2005 (\$8 billion in CY03, \$29 billion over 10 years)</p>

Side-by-Side Comparison of Stimulus Plans

	Democratic Plan	Republican Plan
Tax Provisions for Business	<p>— 50 percent bonus depreciation for businesses in 2003, declining to 10 percent in 2004; — increase expensing provision for small business to \$50,000 in FY03</p> <p>Total cost of both provisions=\$32 billion in FY03 and \$1 billion over 2003-13</p>	Increase expensing provision for small business to \$75,000, indexed (\$2 billion in CY03, and \$16 billion over 10 years)
Aid to States—Total	up to \$32 billion for states in 2003 (including \$1 billion for aid for unemployment compensation to low-wage earners and part-time workers)	<p>—\$3.6 billion one-time total (as noted above in section on <i>Unemployment Provisions</i>) — Tax provisions will permanently reduce state revenues</p>
Aid to States—Homeland Security	\$10 billion in FY03	no provision
Aid to States—Medicaid (FMAP)	\$10 billion in FY03	no provision
Aid to States—Infrastructure	\$5 billion in FY03	no provision
Aid to States—Other	up to \$6 billion in FY03 for special assistance for critical needs	\$3.6 billion in personal re-employment accounts, as noted above in section on <i>Unemployment Provisions</i>